

Georgia Securities Exchange (GSE)
And
Georgia Securities Central Depository (GSCD)

Draft Business Plan and Financial Restructuring Report

By

Michael Schaeffer
Jim Miller

Acronyms

Broker-Dealer	BD
Central Securities Depository / Georgia Central Depository	CSD / GSCD
Fiscal Year	FY
Georgia Lari (Unit of Currency)	GEL
Georgia Stock Exchange	GSE
International Accounting Standards	IAS
Initial Public Offering	IPO
Informational Technology	IT
Memorandum of Understanding	MOU
Not Applicable	Na
National Securities Commission	NSC
Russian Trading System	RTS
Settlement Date	SD
Terms of Reference	TOR
United States Agency For International Development	USAID
World Bank	WB

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I. Executive Summary

Without a doubt the infrastructure (rules and systems) for GSE/GSCD are substantially in place, but it has not been put to test by any significant amount of market activity. The Russian Trading System (RTS) purchased for the Exchange has the capacity and scalability to handle a significant increase in market activity. The primary question(s) that USAID should keep in mind when reviewing any (non) funding level option include:

- Will the Georgian capital markets begin to become a force in the near- and medium terms such that the GSE/GSCD becomes self-sustaining?
- When will the GSE/GSCD reach a break-even level of sustainability? And,
- Can the GSE/GSCD staffing levels be scaled back without affecting current and potential future levels of operation?

In brief, the current economic conditions in Georgia limit the amount of capital available in the Georgian capital markets. Banks and insurance companies are currently the primary source of capital in the market. The modest levels of disposable income and savings, and the general lack of understanding and awareness of the average citizen regarding the securities markets, limits near-term capital availability from individual investors. In addition, international investors are concerned about the potential influence of the government on this relatively underdeveloped local capital market.

The project team briefly explored several possible options pertaining to the GSE/GSCD and the development of the Georgian capital markets. These factors raise serious doubts as to whether the GSE/GSCD can reach a level of self-sufficiency within the next 3 years (with or without additional donor support). The question raised by the project team members after reviewing the operation of the GSE/GSCD can be capsulated in the following: why would any institution contribute additional capital to an organization that is financially hemorrhaging, has an unclear business model with unpredictable future revenue flows, and has an inadequate understanding of what financial products can reasonably be brought to market over the near- and medium-terms? USAID should revisit this question in light of its capital markets development strategy.

II. Overview

The Georgian Stock Exchange (GSE) and Central Depository (GSCD) were founded in January 1999. The GSE is the only organized and licensed securities market in Georgia. The primary features of the GSE include: 100% pre-deposit of funds and securities in the central depository; anonymity of trades; and, automatic clearing and settlement through the central depository. There are currently 269 companies approved for trading on the GSE.

The evolution of the Georgian capital market has been somewhat lethargic despite having a relatively modern stock exchange, brokerage system, and central depository. The relative weakness in Georgian capital markets translates directly into a financially weak GSE/GSCD. The purpose of this document is to outline the current Georgian securities market and the financial condition of the GSE/GSCD, and to elucidate, in a step-wise manner, a strategy for the Georgian stock exchange to achieve a level of self-sustainability.

III. Georgian Securities Market Is Highly Illiquid

Concentrated shareholdings and the lack of channels through which to communicate with minority shareholders, as well as a lack of information on company shareholdings has impeded the development of the Georgian Securities market. The illiquidity of the Georgian securities market provides considerable slack for management of Georgian listed companies from the point of view of securities market monitoring and leaves little incentive to improve investor relations.

Various reasons for the lack of liquidity of the capital market have been suggested by a number of participants in the Georgian securities market. The primary reasons cited were limited supply of stocks, especially stocks of attractive enterprises, and limited direct participation of individuals and institutions in the stock market. Table 1, below, provides a snapshot of possible reasons for stock market illiquidity.

Table 1. Possible Reasons For Stock Market Illiquidity

LACK OF SUPPLY OF STOCKS	LACK OF DEMAND FOR STOCKS
<ul style="list-style-type: none"> ▪ Government sale of most attractive enterprises for cash. 	<ul style="list-style-type: none"> ▪ Very little foreign portfolio investment interest.
<ul style="list-style-type: none"> ▪ Lack of interest in a securities market listing because of burden of extra listing obligations with no advantages regarding access to capital. 	<ul style="list-style-type: none"> ▪ Local individual investors are reluctant to speculate on the stock market.
<ul style="list-style-type: none"> ▪ Possible management aversion to exposing themselves to market discipline. ▪ Management worried that new shareholders would vote current management out. 	<ul style="list-style-type: none"> ▪ No attractive stocks.
<ul style="list-style-type: none"> ▪ Fee structure and slow processing of documents regarding new stock issues. 	<ul style="list-style-type: none"> ▪ Absence of New Products

Of the 269 currently listed GSE companies, there are 10 companies, at most, whose shares are regularly traded. Stocks that may be offered for the second voucher privatization are primarily the government's residual shares in unattractive enterprises, more specifically, those stocks that weren't taken up in the first wave and potential new stocks in small and medium-sized enterprises.

There appears to be a government preference for cash privatization of attractive enterprises, which has meant that the largest and most attractive enterprises (the Georgia 'Blue-Chip' companies) are not listed on the exchange. In addition, there is limited direct participation of institutions and individuals in the Georgian securities market. Few new investors have entered the market. Observed market activity is considered to be attributable to the selling and reselling of shares by existing participants. This limits the amount of new investment flowing into the securities market.

A. Large Share Trading Predominates¹

Large Share (or Bloc) trades have, since the establishment of the present securities market, constituted the largest volume of trades. Due to the relatively low volume of trades on the GSE, a large privatization deal, or a bloc trade, can significantly affect the aggregate monthly trading volume. In addition, these trades have significant impact on corporate ownership and control structures.

Large share trades have predominately been directed towards consolidation of ownership stakes in the hands of a majority owner and the dilution of the minority stake. In a capital markets/corporate governance environment where minority shareholder rights are not

¹ The rules associated with large share trading, or more commonly known as bloc trades, are currently being developed. In this note, the authors use the words bloc trades and large share trading interchangeably.

well enforced and where there are instances of sub-optimal management practices, the dominant strategy for investors is not portfolio diversification, but rather to gain controlling stakes in a few strategically chosen companies. This affords the controlling investor: protection of ownership rights; the opportunity to exploit controlling shareholder status in an enforcement environment that allows this; and the ability and the incentives to institute management strategies, with limited free-riding by other shareholders.

B. Absence of ‘New’ Products and Services

The primary activities of the Exchange are:

- Admission and listing of securities for funding on the Exchange²;
- Collection of offers to buy and sell securities;
- Organization of securities trading in accordance with Exchange trading rules and procedures; and,
- Dissemination of information on trading results and other market related information³.

The project team reviewed the current and near-, medium term outlook for listing of securities, bonds, IPOs, privatization auctions, and trading activity for the GSE/GSCD in the following section.

1. Listing of Securities

The GSE/GSCD has been focused on admitting securities for trading, and educating reporting companies regarding disclosure requirements. The Exchange has not been able to devote a significant amount of time, nor has the Exchange been successful, in admitting securities to list. In fact, many of the securities that are currently approved for trading would like to de-list themselves to avoid having to file with the NSC/GSE, thereby avoiding public scrutiny of corporate performance.

The current business plan of the GSE/GSCD is to convince five (5) companies to apply for listing in FY2001. The goal for FY 2002 is to list an additional ten (10) firms. This estimate appears to be too robust. A likely scenario would include a new listing of perhaps 1 or 2 firms in FY2001 with slightly more in FY2002.

2. Initial Public Offerings (IPOs)

There are several privately held Georgian companies considering an Initial Public Offering (IPO). These companies could generate some interest from potential investors and are also potential candidates for an Exchange listing. The Exchange is working with

² GSE listing requirements require companies to have capital in excess of USD \$100,000; greater than 50,000 shares outstanding; profitability in two of the past three years; compliance with International Accounting Standards (IAS); and a minimum of 100 shareholders.

³ Georgia Stock Exchange (GSE) Business Plan, As of July 2000. Pg. 1.

the brokerage community to inform company managers about the advantages of raising capital through an IPO and listing on the Exchange. The GSE's current business plan dated July 2000 calls for 2 IPOs in FY 2000 with an additional 5 IPOs in FY2001⁴.

The Exchange is falling far short of their projected IPO objectives. As of March 2001, the Exchange has no IPOs. The project team queried the Exchange management as to which company (ies) they thought would be ready in the near-term for an IPO. The Exchange management appeared to be hard-pressed to name any company that may be ready in FY2001. The Exchange management did, however, propose TBC and the National Bank of Georgia as being ready for an IPO without additional qualification. It is clear that several domestic banks are promising targets for an initial IPO on the Exchange. However it is unclear whether these banks will use the Exchange to raise additional capital.

3. Municipal Bonds

Debt securities are a significant portion of the securities market in any economy. As a financial product, debt securities offer more stable and less risky returns for institutional investors and can be more attractive than equity investments. Since debt securities are typically held to maturity, there is often less activity on the secondary market. In addition, the successful distribution and trading of debt securities can improve the credibility of the securities market institution, and potentially attract other investors to that market.⁵

A review of the GSE/GSCD July 2000 forecast indicate that two municipalities are projected to issue bonds this year, with additional municipal bond issues projected in FY 2002 and FY 2003. Although there is heightened local capital market interest with respect to near-term municipal borrowing, this appears highly unlikely. In the absence of a legal and regulatory framework for local municipal borrowing, it would appear that any prospective local government bond issue would be postponed for at least 1 or 2 years.

4. Privatization

The institutions with the most potential interest to investors are the larger state enterprises that are still in the process of being privatized. The government has however, demonstrated a preference for cash sales to strategic investors bypassing the local Exchange. The GSE and NSC have been working together to point out the advantages of using the Exchange to facilitate the privatization process. The recent signing of a Memorandum of Understanding (MOU) between the Ministry of State Property Management, the National Securities Commission (NSC) and the Georgian Stock Exchange to use the GSE to conduct auctions for the securities of several state owned

⁴ The Exchange, and the management of Georgian corporations, still does not know how to use the capital markets to attract new investment capital. Instead of allowing all potential investors to purchase shares of companies, management engages in a private sale to friendly shareholders. All three (3) IPOs that were completed in 2000 were distributed through a registry.

⁵ Ibid. Pg. 6.

enterprises is promising for the Georgian securities market.⁶ If these efforts are successful, it will encourage the Ministry of State Property Management to use the Exchange for additional privatization auctions in the future, including the privatization of government-owned residual shares in many companies⁷.

A review of the business plan proposed by the GSE/GSCD in July 2000 indicates that 2 privatization auctions were to take place through the Exchange in FY2000, with six additional privatization auctions in FY2001. The Exchange has fallen significantly behind this projected privatization pace. A more modest forecast of one (1), potentially two (2), privatization auctions for FY2001 would be more appropriate. The project team asked the Exchange management which privatizations they felt would come through the Exchange. The Exchange management engaged in a great deal of discussion and explanation with respect to future privatizations through the Exchange but could not name one privatization with a great deal of certainty.

5. T-Bills

Treasury bills are the most likely new financial instruments to be introduced by the National Bank of Georgia. In order for the Exchange to be an active trader in T-bills, the law must be changed to allow sub-registers to be nominee holders. GSE/GSCD management estimates that GEL 6 to 28 million in treasury bills will be issued in 2001. It is uncertain whether the requirement that would allow the Exchange to act as a nominee will/can be changed in 2001.

The Exchange management estimates that this level of treasury bills would generate a monthly turnover of around GEL 1.7 to 1.8 million. Based on the current GSE/GSCD fee structure, this would imply that monthly revenue would be about GEL 6 K, or GEL 72 K per annum. This would be a healthy start to generating much needed revenue but is modest in terms of the total revenue requirements needed to break even.

The real question is will the Exchange be a major player in the secondary treasury market? The Exchange will face substantial opposition from the National Bank of Georgia in getting treasuries traded on the secondary market. In addition, if the tenure of the newly issued Treasury bill is very short (180 days or less), it is unlikely that there will be much secondary market trading. The Exchange will only benefit from secondary market trading in T-Notes or T-Bonds if the maturities of these notes are greater than 2-years (medium and long-term notes).

6. Corporate Bonds

Corporate bonds are, at best, years away from being brought to the Georgian capital markets. The Georgian financial market will need 'blue-chip' companies to issue the first debt securities in order to attract investor interest. In addition, the issuances of corporate

⁶ Ibid. Pg. 5.

⁷ The Ministry of State Property Management should consider allowing the telecommunication company to be privatized via the Exchange.

debt may require additional legislation, or alterations to the current legal and regulatory framework. Simple questions such as: how often will coupons be paid, will accrued interest be based on a 360 or 365 day calendar year, still have not been integrated into a general understanding in the Georgian capital markets community.

7. Brokerage Services

It is unlikely that there will be a significant increase in the number of brokerage companies or licensed brokers until a more substantial number of securities are admitted for trading.

8. Trading Activity

The current business plan reads, “When a significant portion of Reporting Companies have been admitted for trading and all transactions in publicly held securities are appropriately processed through the exchange, there could be a significant increase in trading activity. If 50% of the current transfer activity represents a secondary market in the securities of the Reporting Companies, the exchange could expect approximately 500 transactions per month. If the exchange is successful in its efforts to conduct a few high quality IPOs and Privatization Auctions, there could be an even more significant increase in trading activity.”⁸

The project team agrees with the above assertion that trading activity could ‘possibly’ approach 500 transactions per month *if all* transactions in publicly held securities are appropriately processed through the exchange. This, however, would require the management of the GSE to aggressively enforce all trading through the exchange⁹. Swift action in 2000 by the NSC has limited the illegal exchange of securities from taking place at the registries instead of through the Exchange¹⁰.

With the benefit of hindsight, the project team believes that the number of privatization auctions and IPOs envisaged by the Exchange appear too robust. As a result, the Project Team believes that the numbers of transactions per month will most likely average, at most, between 200 and 300 trades per month during FY2001. If additional IPOs/privatizations come through the exchange, the number of transactions could conceivably improve.

C. Foreign Direct Investment Greater Than Portfolio Investments

Table 2, below, indicates that the relative flow of capital from various sources has been much greater in foreign direct investments than in portfolio investments. Foreign direct

⁸ Ibid. Pg. 6.

⁹ See National Securities Commission, Unpublished Memorandum, “General Description of Non-Trade “Gray Market”, for additional information.

¹⁰ A significant number of trades in 2000 were being processed through the registrars as ‘gifts’. This allowed trading partners to avoid using brokerage firms and the facilities of the Exchange. These off-Exchange transactions, while no longer prevalent, still have to be monitored. The management of the exchange estimates that they lost approximately 2000 trades because of these improper registrar trades.

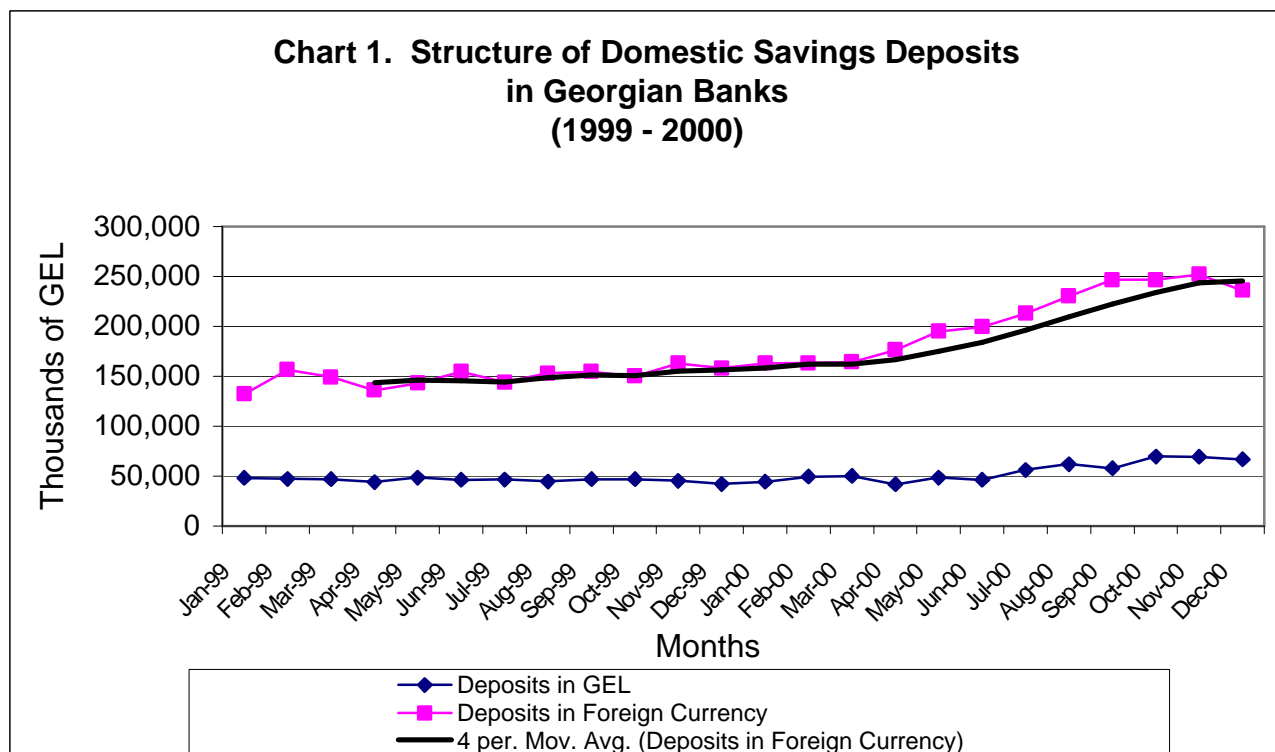
investment increased by U.S. \$39.1 million (or, 45%) over the FY2000/FY1999 period, reaching U.S. \$126.5 million. However, it is unlikely that there will be a significant increase in the amount of capital available within Georgia unless overall economic conditions increase.

Table 2.
Georgia - Direct Foreign Investments by Country

(USD Millions)			
	FY 1999	FY 2000	% Change
CIS	1.1	6.4	482%
USA	64.6	38.0	-41%
Turkey	10.2	29.9	193%
France	0.0	14.9	Na
Israel	0.0	9.9	Na
Bulgaria	0.0	6.2	Na
Poland	0.0	6.2	Na
Netherlands	0.0	4.6	Na
Italy	0.1	3.1	3000%
Austria	0.0	2.5	Na
Lebanon	0.0	1.9	Na
Germany	2.2	1.3	-41%
United Kingdom	5.2	1.0	-81%
Switzerland	0.0	0.6	Na
Other	4.0	0.0	Na
Total	87.4	126.5	45%

Source: Georgia, Ministry of Finance, February 2001.

Institutional investors (e.g., banks and insurance companies) are often more interested in debt securities to avoid the volatility of returns generally associated with equity securities. Chart 1, below, illustrates that starting from January 1999 thru December 2000, the level of domestic savings held as GEL and as foreign currency has increased by 20% and 38%, respectively. Notwithstanding, the lack of disposable income, and modest levels of domestic savings, combined with the general lack of understanding and awareness of the average Georgian consumer regarding the securities markets, limits the potential of domestic local investors to supply capital to the securities markets.



Source: Georgia, Ministry of Finance. Sibley International, Inc. March 2001.

D. Ownership Structure and Capital Markets

In Georgia, the debate on the potential impact of ownership structure and processes on private sector enterprises, and the weaknesses in the current system, are perceived as a matter for the public securities market. On closer examination of ownership patterns and flow structures, the institutions of governance that apply in the public securities market may not be as significant as previously considered. This is because a public securities market is normally used where there is a need to raise funds from a wide group of investors, and to offer those investors an opportunity to exit their participation in the enterprise through a liquid offer-bid system, including small (odd) lots.

The near-term trading evidence indicates that the consequence of having investors hold via the public securities market is not preferred. Ownership is concentrated. This concentration of ownership indicates a tension between the development of a public securities market on the basis of institutions that envisage a high degree of separation of ownership and control (i.e., outside owners) and, the forces for increased concentration of ownership. Data on foreign direct investor flows and the structures of capital formation that follow from this, confirm a preference for concentration and close control over dispersion of ownership and separation from control.

E. Current GSE and GSCD Business Environment

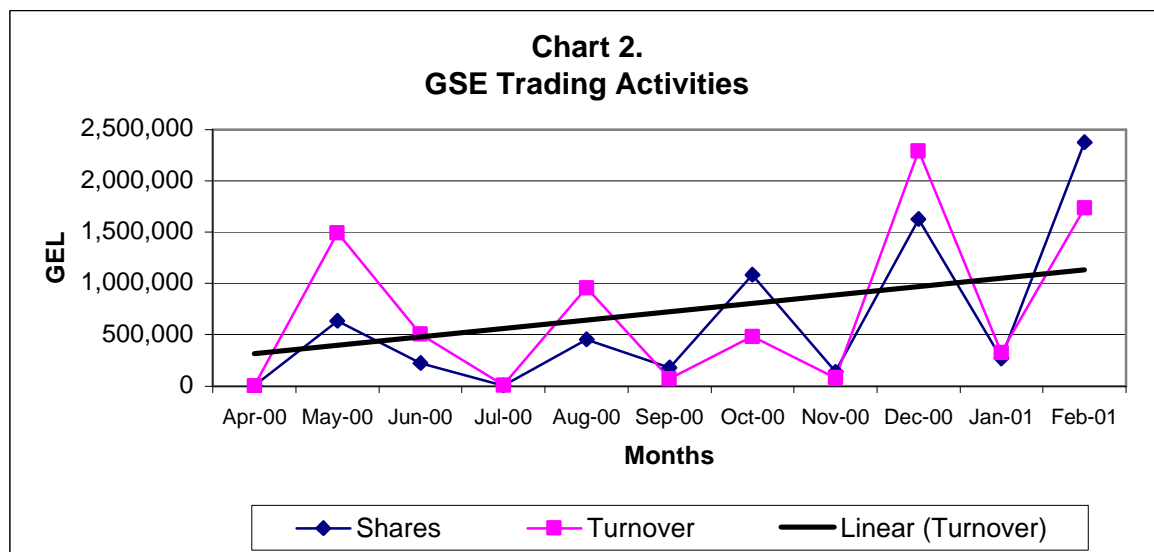
Table 3, below, illustrates the GSE Trading activities over the April 2000 to February, 2001 period. Since inception, the Georgian Stock Exchange (GSE) has averaged 81 trades per month.

Table 3.
GSE Monthly Trading Activities

Month	Trades	Shares	Turnover	Shares/Trade	Turnover/Trade
Apr-00	9	2,174	1,428	242	159
May-00	7	634,000	1,494,116	90,571	213,445
Jun-00	14	224,271	503,537	16,019	35,967
Jul-00	20	4,695	9,913	235	496
Aug-00	40	455,852	956,338	11,396	23,908
Sep-00	93	181,664	72,049	1,953	775
Oct-00	205	1,086,153	482,454	5,298	2,353
Nov-00	85	138,450	80,735	1,629	950
Dec-00	128	1,626,781	2,291,736	12,709	17,904
Jan-01	198	269,497	327,222	1,361	1,653
Feb-01	92	2,376,018	1,733,559	25,826	18,843
Total	891	6,999,555	7,953,087		
Average	81	636,323	723,008	15,204	28,768
Standard Deviation	72	761,742	791,157	26,291	62,455

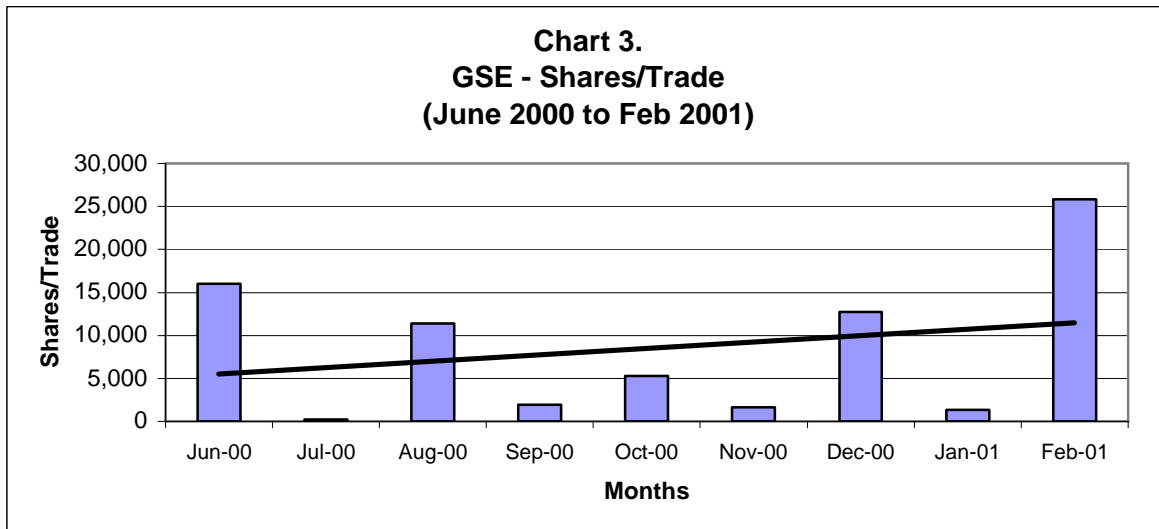
Source: Georgia Stock Exchange, March 15, 2001, and Sibley International, Inc.

A snapshot of the GSE (see Chart 2, below) illustrates that trading activity is increasing, but the number of trades is extremely volatile with trading activity gyrating rapidly. There has also been a significant increase in interest in securities as measured by the amount of securities and cash that has been pre-deposited in advance of GSE trading sessions (and, the number of buy/sell offers that have been entered into the GSE Trading System).



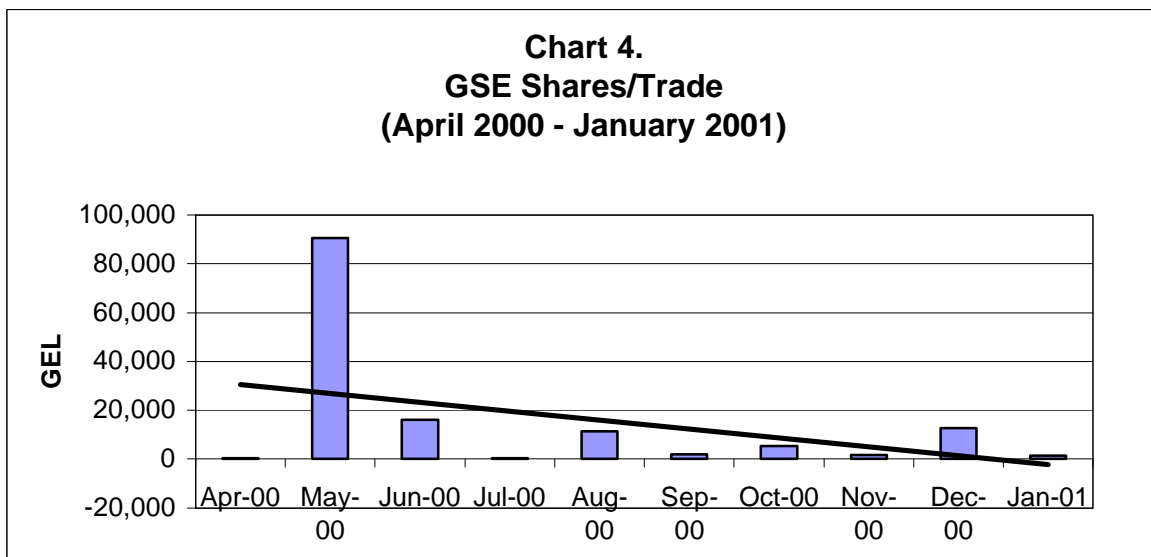
Source: Georgia Stock Exchange, March 15, 2001, and Sibley International, Inc.

Chart 3, below, illustrates the number of shares per trade activity of the GSE. The chart indicates that the number of shares per trade, as indicated by the trend line, has increased from 243 shares per trade in April to more than 25,000 shares per trade in February. This interpretation of the data can be somewhat deceptive. The GSE trading activity is so small that trades in one major company can dramatically skew results.



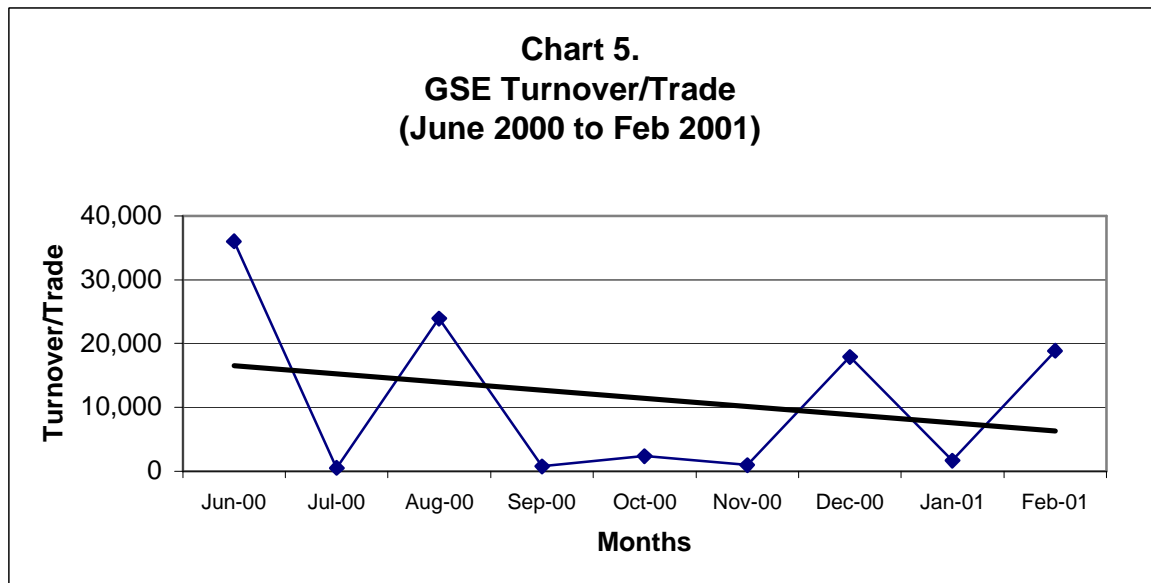
Source: Georgia Stock Exchange, March 15, 2001, and Sibley International, Inc.

An analysis of the February trading activity indicates that one Georgian Bank led the number of shares being traded. Chart 4, below, excludes February from the shares per trade time series analysis. The exclusion of the February GSE trading activity allows for a more modest interpretation of the GSE shares/trade activity.



Source: Georgia Stock Exchange, March 15, 2001, and Sibley International, Inc.

Chart 5, below, illustrates that the GSE turnover per trade has been extremely weak since inception in April 2000.



Source: Georgia Stock Exchange, March 15, 2001, and Sibley International, Inc.

Although market activity has increased over the past few months, it is not sufficient to allow the GSE/GSCD to fund their operations to the point of reaching break-even. As previously stated, there are 269 companies approved for trading on the GSE. The GSE receives no revenues for maintaining these companies. The GSE/GSCD is required to approve these companies for trading. The approval process obligates the GSE/GSCD to: collect and maintain financial records regarding the company; update these records on a regular basis; and make these records available when requested.

1. Trading Concentrations

There are 38 member brokerage firms. Typically, representatives of 10 firms show-up for a trading session. Many firms have never executed a trade. A review of the GSE trading history indicates that typically only 3 or 4 firms engage in any sizeable trading activity. After nearly one year of operation, only 53 of 269 companies, or 20 percent of listed firms, have had their shares traded. Forty-five companies have traded fewer than ten times. In effect, only 9 companies are trading on a regular basis. A brief analysis of GSE trades in 2000 indicate:

- A total of 40 stocks were traded 595 times.
- Of the 595 trades, 86% (or, 510 trades) were in just 9 stocks.
- Total 2000 share volume of the 40 stocks equaled 4.3 million.
- Six stocks accounted for 95% of the total volume.
- The total cash value of the stocks traded in 2000 equaled GEL 5.9 million.
- Just 2 stocks accounted for 95%, or GEL 5.6 million of the cash value.

- Of the 40 stocks which were traded in 2000, 28 traded for share price of GEL 1, or less, and five (5) traded for a per share price of more than one GEL. High valuations are not a deterrent to domestic trading.
- Just four brokerage firms executed 90% of trades completed in FY2000.
- There is no specialist or market making activity at present in the local market.
- Any broker posting a bid or asked (offered) price, effectively becomes a market maker.
- Trading activity occurs only two days a week (Tuesday, Thursday), for one hour, between 13:30-14:30.
- Current trading volumes do not necessitate additional trading hours.

Table 4. GSE Concentration of Trades in 2000 by Company

Most Common Stocks Traded (9)	Stocks Generating the Largest Share Volume (6)	Stocks Generating the Largest Cash Value (2)
GEB	GEB	GEB (Bank of Georgia)
UGB	UGB	UGB (United Georgia Bank)
IMRT (Furniture)	ELTQ (Manufacture Electric)	
IND (Investment Fund)	KAVT (Auto)	
SQMP (Construction)	MEQZ (Food)	
TEPU (Food)	SAMG (Dairy)	
TKH (Manufacture)		
TRMS (Construction)		
UTB (Dept. Store Tbilisi)		

Source: Georgia Stock Exchange, March 2001.

Table 4 illustrates that of the 9 stocks that were actively traded in 2000, only the Bank of Georgia and United Bank of Georgia topped all three categories of the most stocks traded; the stocks generating the largest share volume; and, the stocks generating the largest cash value.

There are approximately 500 customer accounts open at the brokerages. Many of these accounts remain inactive. About 150 to 200 customer accounts have traded only once. These accounts are thought to be from persons who participated in the coupon voucher privatization program and sold them immediately on the marketplace. Although there are 38 brokerage firms employing a total of about 80 brokers, only 20 brokerage firms have gone through the training needed to enter trades in the trading system. Some people have registered as brokers, obtaining a license, but are possibly waiting until some future date to trade.

2. The Trading System

The exchange trading system is a modified version of the Russian Trading System (RTS), which was built by NASDAQ. It offers both transparency of bid and asked prices, and anonymity of the brokers who are posting these prices. This reduces the possibility of any collusion between brokers to fix prices. Trading regulations are in line with international standards and promote fairness in the market place. All quotes entered by

brokers are considered 'firm' regardless of their size. Firms posting quotes must also indicate if they will only trade the full quantity posted or if they will accept an execution on a partial amount. Due to the illiquidity of the market, a significant number of orders are scaled down and executed. Customer orders always get priority over firm proprietary orders, and a firm that has an in-house cross must always post both trades on the trading system before crossing the order itself.

The depository for settlement of trades meets, and exceeds, international standards¹¹. At present, the standard for settling trades is the third business day after trade date (T+3). It is expected to move to T+1 over the medium term. The Exchange mandates that the purchasing firm's funds and the selling firms securities be on deposit at the depository before the system will allow a trade to be executed. As a result, settlement at the Exchange takes place on T+1 (or, even T+0). The pre-deposit stipulation reduces settlement counter party risk (the risk that either counter party to a trade becomes insolvent before the trade settles) to almost zero. Brokers are required to open accounts at the four designated settlement banks. Four banks are used to diversify the risk. If a selling investor has an account at the same bank used by the broker, the investor may be able to access the trade settlement funds on T+0.

3. Two-Tier Structure

The Exchange has a two-tier system of listing. In the lower tier are companies that are admitted to trade without any formal listing arrangement with an issuer. The top tier of companies (i.e., blue-chips) consists of listed companies whose issuers have signed a listing agreement and satisfy higher Exchange requirements (including higher capitalization criteria). Listed firms are required to pay an initial listing fee and an annual fee based on capitalization¹². Companies that meet the tier-one criteria are known as listed companies. All other companies are known as 'approved for trading'.

Companies that are approved for trading pay no fee(s). There are a few companies that may meet GSE listing requirements, but none have done so. The GSE believes that one Georgian bank will list in 2001.

F. GSE/GSCD FY2001 Income Projection Looks Bleak

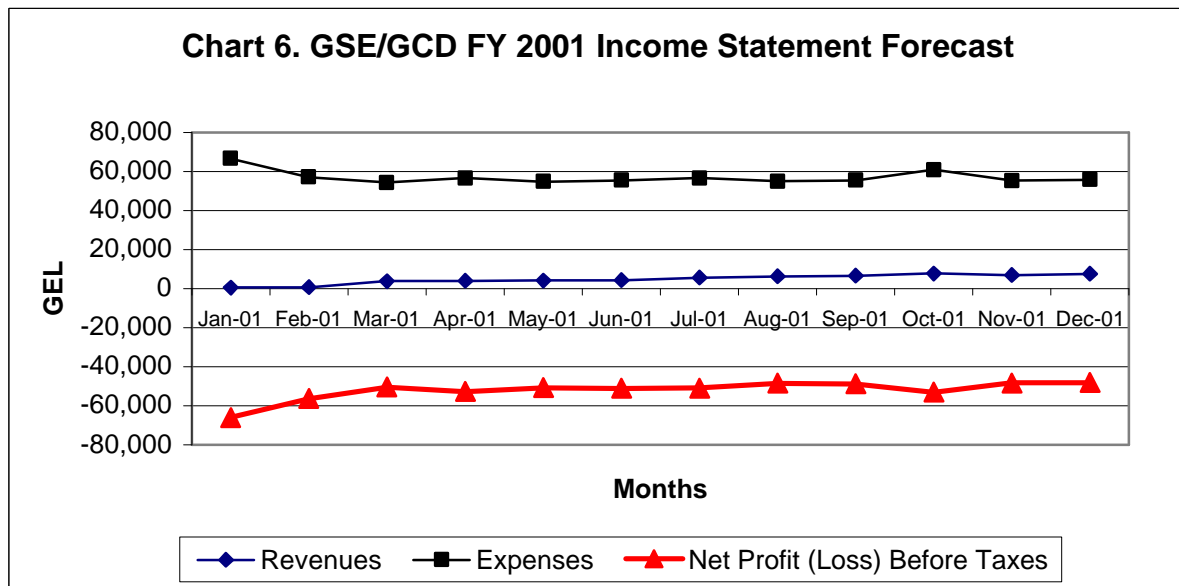
The combined GSE/GSCD FY 2001 operating results forecast indicate that the exchange and depository may operate with a deficit approaching U.S. \$325,000 (see Chart 6,

¹¹ All securities are dematerialized (no physical certificates). This eliminates the risk of certificates being lost, stolen, burned or mutilated. The Brokers, and the GSCD, maintain client positions in book-entry form. Each brokerage client account has also been opened at the depository to ensure cash or securities are in place before trades are executed.

¹² Admitted and listed companies are required to submit basic corporate documents including basic audited financial statements and a charter demonstrating that it has a legal corporate status. Admitted and listed companies are required to provide the NSC and the Exchange annual and semi-annual reports. Listed companies must have their financial statements in full compliance with International Accounting Standards, have capital in excess of U.S.\$100K, have issued and outstanding shares greater than 50,000, and, have at least two profitable financial years out of the last three.

below). Given the current modest economic prospects for Georgian financial and real economic sectors and the current exchange business model, the GSE/GSCD is projected to lose about U.S. \$1-1.5 million over the next 3-4 years before breaking even.

The current size (23 employees) and underlying GSE/GSCD cost structure is too large to be supported by the current level of project revenues. The ability of the GSE to attract market activity is restricted by several factors including: the generally weak Georgian economic conditions; the (in) ability of the NSC to monitor and enforce regulations; the insufficient privatization/IPO pipeline of companies and new financial instruments, and the lack of liquidity and secondary trading markets.



Source: Sibley International, Inc - March 15, 2001.

IV. Options

With combined GSE/GSCD projected FY2001 losses estimated at U.S.\$325K, and with limited prospects for near term revenue growth, it is expected that the GSE/GSCD will continue to financially hemorrhage for the foreseeable future unless drastic action on both expenditure compression and revenue generation is undertaken. Table 5, below, lists the spectrum of options available to USAID and the GSE/GSCD. Briefly, the options include:

- Creating an alternative 'slimmed-down' business model;
- Immediately discontinuing donor support;
- Continue to support the GSE/GSCD Without Changes;
- Explore obtaining GSE/GSCD Budget Support From Brokers/Banks; and,
- Explore obtaining funding for the GSE/GSCD from other donors.

The alternative "slimmed-down" business model is explored in Section V. below. This section will briefly detail the four remaining options.

Table 5.
GSE/GSCD Available Options

Option	Cost	Result	Impact	Viability
Create Alternative GSE/GSCD Business Model	FY2001 - \$270K (at 90% Required Levels); Minimum Estimated Cost for Next 3 Years \$650-750K	Aggressive Business Model, Slimmed Down Staff, Simpler Organizational Structure, Lower Operating Costs, No Impact on Capacity	Puts Onus on GSE/GSCD to Develop Financial Instruments for Self-Sustainability. Unclear Whether GSE/GSCD can be Self Sustainable in 3 Years, Minimum Cost to USAID \$650-750K	<i>Uncertain</i>
Immediately Discontinue Donor Support (Not Viable)	FY 2001 Short-Fall U.S. \$325K	Insolvency (Shut-Down)	? Estimated Shut-Down Cost U.S.\$80K	<i>Not Viable</i>
Continue Support Without Changes	Total Estimated Cost U.S. \$1-1.5 Million Over Next 3-4 Years Before Break Even	Not Clear	Substantial Cost. Unclear Whether USAID Can Exit Cleanly. Given the Current Political/Economic Conditions, Unclear Whether the GSE/GSCD Can Achieve Self-Sustainability Within 3-4 Years.	<i>Not Viable</i>
Local Banks/Brokerage Firms Cover GSE Loses (Not Viable)	Same as Above	Not Clear	Local Financial Community Unwilling to Contribute to GSE/GSCD Shortfall.	<i>Not Viable</i>
Other Suggestions: Additional Donor Funding	?	?	?	<i>Uncertain</i>

Source: Sibley International, Inc. March 2001.

A. Immediately Discontinue Donor Support

Immediately discontinuing donor support would result in the technical insolvency of the GSE/GSCD by the end of April/May - likely forcing the joint stock company into bankruptcy. The project team estimated that it would cost approximately U.S.\$80K to resolve all severance and bankruptcy issues associated with the shutdown of the Exchange.

What are the implications of insolvency and shutdown? The project team believes that there will be substantial political fall-out from the closure of the exchange. Certainly, all future capital market type projects, financial instruments, etc., may be adversely impacted. In addition, the already weakened state of investor confidence will again be shaken.

The Law on Securities Markets does allow for the licensing of additional (new) Exchanges, but it requires the commitment of at least 10 brokerage companies to become owner-members of the Exchange before a license can be granted. The Law on Securities Markets also requires that the central clearing and settlement of securities transactions be carried out at a licensed central depository.

The GSE owns the Georgia Securities Central Depository (GSCD), which is the only licensed depository in Georgia. All members of the exchange are required to be members of the GSCD. This requirement, combined with the additional (new) investment required to develop the infrastructure of an Exchange, implies that the option of immediately discontinuing donor support should be undertaken with great caution. If USAID withdraws, how much will it cost to get back in?

B. Continue to Support the GSE/GSCD Without Changes – ‘Stay-put Option’

Continuing to support the GSE/GSCD without requiring some structural adjustments in the current management model, or compression of the current level of expenditures, would require a minimum additional donor outlay of between U.S.\$1-1.5 million over the next 3 to 4 years. A portrait of the organization/management/and financial structure illustrates:

- A staffing level of 23 full-time employees (including guards/driver etc.,)
- An operation where an average of 81 trades have taken place every month since inception.
- The level of trades has however increased to between 100 and 300 over the past three months.
- Trading occurs two days a week (Tuesday, Thursday) from 1:30-2:30 pm.
- The GSE/GSCD require a turnover of about GEL 550K at current staffing levels – approximately 20 times the current projected level of revenues.

Clearly, the Exchange is inappropriately staffed and sized for the near- and medium-term projected level of revenues. Further, the revenue projections on which this forecast is predicated incorporates: 1 municipal bond, 2 additional privatized companies, 2 IPOs; and dramatically increased trading volumes from current levels will be difficult to realize. Even this recently revised downward forecast (March 15, 2001) for FY2001 GSE/GSCD volume appears optimistic. The project team believes that a revenue forecast where no municipal bonds, and (perhaps) 1 additional privatized company and IPO would be more appropriate for FY 2001. The medium-term, the next 2 to 3 year, volume forecast also appears fragile.

Without a doubt the infrastructure (rules and systems) for GSE/GSCD are substantially in place, but it has not been put to test by a significant amount of market activity. The Russian Trading System (RTS) purchased for the Exchange has the capacity and scalability to handle a significant increase in market activity. It is, however, essential for the Exchange to monitor key performance requirements to ensure that the system performs as expected¹³. GSE/GSCD senior directors have reiterated that they are ‘optimally’ staffed for the projected increase in envisioned trading. The primary question(s) that this project team and USAID should keep in mind when reviewing the ‘stay-put’ funding level option include:

- Will the Georgian capital markets begin to become a force in the near- and medium terms such that the GSE/GSCD becomes self-sustaining?
- When will the GSE/GSCD reach a break-even level of sustainability? And,
- Can the GSE/GSCD staffing levels be scaled back without affecting current and potential future levels of operation?

In brief, the current economic conditions in Georgia limit the amount of capital available in the Georgian capital markets. Banks and insurance companies are currently the primary source of capital in the market. The modest levels of disposable income and savings, and the general lack of understanding and awareness of the average citizen regarding the securities markets, limits near-term capital availability from individual investors. In addition, international investors are concerned about the potential influence of the government on the relatively underdeveloped local capital markets. These factors raise serious doubts as to whether the GSE/GSCD can reach a level of self-sufficiency within the next 3 years (with or without additional donor support).

Obviously, continued donor support without additional GSE/GSCD corporate restructuring, devoid of capping additional future donor outlays, is not a viable option. The project team will present a near and medium term business plan in Section VI.

C. Explore Obtaining Budget Support From Brokers/Banks

The project team explored this option, but it does not appear viable. Banks are unwilling to make up for any GSE/GSCD financial shortfall. In effect, Georgian banks appear to be similarly undercapitalized as the GSE/GSCD, and struggling to compete for many of the same products. While market activity remains low, the brokerage community does not appear to have the resources to make a larger contribution of capital to the Exchange in the form of additional shares. Nevertheless, the project team believes that the GSE/GSCD should charge the brokers a higher monthly fee.

¹³ It is also essential for the Exchange to establish performance measures for the activities conducted by staff members to support the operations of the Exchange (e.g., number of admissions of securities for trading).

D. Explore Obtaining Funding From Other Donors

The project team briefly explored this option. This option also appears to be a non-starter. The question poised by other donors can be capsulated in the following: why would a new donor contribute additional capital to an organization that is financially hemorrhaging, has an unclear business model with unpredictable future revenue flows, and has an inadequate understanding of what financial products can reasonably be brought to market over the near- and medium-terms? USAID should also revisit this question.

V. Near-Term Business Plan

The near-term business plan is defined as actions that should be undertaken within the next 90-days. Georgian near-term capital market and general economic conditions are such that the GSE/GSCD must focus its attention immediately on re-valuating (restructuring) its near to medium term expenditure requirements based on the weak current and modest projected level of revenues. Further, the GSE/GSCD must redouble its market level if it is to achieve modest levels of revenue growth for FY2001.

A. Re-Evaluating the GSE/GSCD Staffing Requirements

First and foremost, the GSE/GSCD must maintain and extend their hiring freeze until revenues and additional market related activity accelerates. A review conducted by the project team (including an auditor) determined that job descriptions and three organizations charts had been prepared by the GSE. It was determined that the organization chart did not provide sufficient clarity as to the levels of authority and employee roles and responsibilities.

The project team recommends that the GSE/GSCD be stream-lined to the proposed 20 persons as outlined in the organization chart provided below, and in the job descriptions provided in Appendix A. The proposed staffing level includes a core staff of 15 persons (with a compliment of 3 guards, cleaning person, and, driver). The simplified employment structure is 3 persons less than previously envisaged. It was determined that the GSE/GSCD could continue to perform its current - legally required - duties with the recommended staffing levels. The project team also determined that dramatically reducing the core staff even further from the recommended levels could seriously impair the GSE/GSCD legal and securities reporting requirements.

It is also recommended that at the current level of business that several positions can be made 'part-time' or contracted on a part time basis. For example, the accountant, Director of Admissions, 2 IT persons, Assistant 1 can be given consultant contracts for 20 hours per week. The Director of Operations, the Managing Director and the Supervisor of operations can be given consultant contracts for 25-30 hours per week. It is also recommended that the Chairman position be turned into a part-time consultancy (20 hours per week). By reducing several full-time positions into part-time consultancies, the GSE/GSCD can save about U.S. \$35K in additional expenses. At this point, the primary

concern is that some of persons, with specific expertise on stock market software etc., will leave to find other positions. The consequence on the functional ability of the stock exchange by moving so many individuals to part-time status becomes unclear over the long-term. The project team recommends that the GSE/GSCD implement the required organization changes by April 30, 2001.

The project team also determined that the GSE/GSCD does not have a human resources (HR) manual. The project team was perplexed that an HR manual was not part of the original Barents Group terms of reference and assigned deliverables¹⁴. It is recommended that by April 30, 2001 an HR manual be completed and implemented at the GSE/GSCD. For the sake of expediency, the GSE/GSCD should use the HR manual that was provided to the Banker's Association by the Barents Group.

B. Cost Accounting and Financial Management

A review by the project team indicated that despite previous training from the Barents Group, that the GSE/GSCD was generally not applying International Accounting Standards (IAS) to its international financial management procedures. The organization continues to operate on a cash basis rather than accruing accounts receivable. Accounts payable have not been introduced because all expenses are paid in cash or by bank transfers.¹⁵ The Report on Internal Controls and Financial Statements (GSE/GSCD) also elaborated:

- Accounts receivable and payable were not balanced with control accounts on a regular basis;
- Journal entries were not being made so there was no need for explanation and support; and,
- Accrued accounts were not maintained so there were no controls provided over income and expenses¹⁶.

The GSE/GSCD is not using an accounting software package. According to the internal audit report, the Barents Group recommended the purchase of an accounting software package to prepare financial reports for internal and external purposes. The project team strongly recommends that by May 30, 2001 the management of the Exchange put in to place a plan to price and purchase an accounting software package. The project team also believes that the accounting technical resources provided by Sibley International, Inc. be utilized at the Exchange to provide financial and cost accounting expertise.

¹⁴ The project team also recommends that USAID review the Barents Group Terms of Reference (TORs) and proposed deliverables for the Capital Markets Project. There appear to be more than a few inadequacies in the level of project deliverables provided including no accounting software, an accounting system that is not in compliance with International Accounting Standards (IAS), and no human resource manual.

¹⁵ Report on Internal Controls and Financial Statements (GSE/GSCD). March 26, 2001. Sibley International, Inc., Pg. 2.

¹⁶ Ibid. Pg. 2.

It is apparent that despite some previous education on double entry bookkeeping, the Exchange does not actually use a double entry (accrual) accounting system. The project team believes that the purchase of the accounting package software combined with additional training by the accounting and management staff on cost and financial accounting, would enable greater efficiencies in operations. Further, the provision of cost accounting principals at the GSE/GSCD would enable the Exchange to price its fee structure to begin to recover its actual costs.

The project team recommends that the following take place:

- In collaboration with Sibley International prepare and approve operating budgets for 2001. April 30, 2001.
- Purchase of accounting software package (and, introduction into GSE/GSCD). May 30, 2001.
- Financial and cost accounting training plan be put into place for accountant and relevant GSE/GSCD managers. This can be completed with the help of Sibley International, Inc. May 30, 2001.
- Chart of accounts be prepared (combined with the software) and that the GSE/GSCD's accounting practice be in full compliance with the International Accounting Standards. May 30, 2001.
- Ensure that expenses are accumulated and that expense controls be put into place so that expenditure amounts are not exceeded.
- With respect to the GSCD – an accounting module for translating depository cash side transactions and billings must be introduced.¹⁷

C. Management

The primary governing body of the Exchange is the General Meeting of Member Shareholders. According to Georgian Law, this meeting is to be held once a year. At this meeting, shareholders elect members of the Supervisory Board. The foremost function of the Supervisory Board is to develop and approve the rules, regulations, and supervisory controls that govern the Georgian securities market. It is the Supervisory Board that appoints the Exchange's General and other Directors. According to the Law on Entrepreneurs, a top manager of a Joint Stock Company cannot be a member of the company's Supervisory Board (Article 55(e)).

There are a couple of management issues that need to be clarified by the end of April. A more detailed analysis of concerns regarding management employment issues is brought up in a parallel audit of the Exchange/Central Depository. Briefly, the Chairman of the Exchange and the Chairman of the Central Depository have management contracts (are not employees of the exchange). These contracts were created, signed and issued by the General Managing Director. This raises numerous concerns because the managing

¹⁷ The modifications relating to the depository cash side transactions will lead to improvements in the CSD's ability to manage cash transfers related to securities transactions and could lead to the development of broker back office capabilities. The GSCD also requires modifications to the accounting system to accommodate the anticipated billing structure.

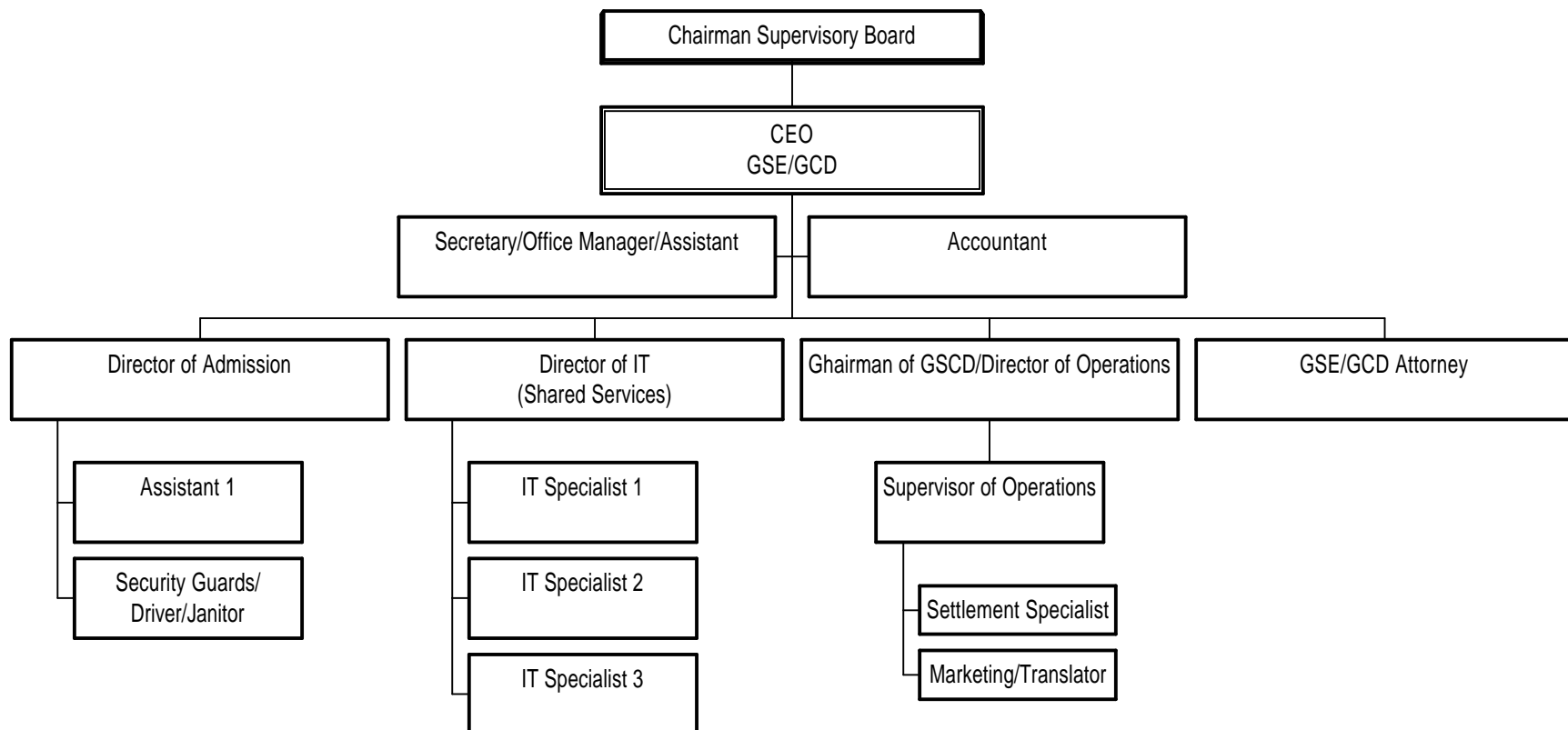
director effectively reports to the Chairman but at the same time has approved their contracts. Further, the Chairman of the Exchange is also a principal in an investment firm. This raises several questions as to conflict of interest. The Chairman should explore putting his ownership interest in the investment firm into a 'blind trust'. This action should be taken by April 30, 2001.

D. Operational Procedures

The Project Team has a specific set of operational procedures that should be put in place. More detailed recommendations are found in Report on Internal Controls and Financial Statements. Briefly, the recommendations include:

- The Director General has approval authority for all financial related activities. However, relative to specific guidelines for controlling expenditures, such as purchasing requirements and travel authorizations, there are not written guidelines. The Project Team Recommends that specific written guidelines be put into place by April 30, 2001. Further, it is recommended that no international business-related travel take place without the express consent of USAID.
- Job descriptions have been prepared for all members of the GSE/GSCD, but there is no document that describes the scope of their authority. The management of the GSE/GSCD should prepare these documents describing the limits of each staff person's authority. Further, the GSE/GSCD should revise as per necessary the suggested job descriptions found in Appendix A. The GSE/GSCD should complete these tasks by April 30, 2001.

Georgia Stock Exchange (GSE)
and
Central Depository (GCD)
Proposed Organization Chart



E. Office Space

The GSE/GSD currently occupies approximately 360 square meters of office space. The project team believes that this space, while sufficient for possible future growth, is more than the current operation requires. The Exchange has a room dedicated to training. Although the exchange does engage in training, it is infrequent. It is recommended that the Exchange negotiate their current rent to be maintained at \$6 square meter. This would imply a monthly rental outlay of GEL 4,320. If the Exchange cannot negotiate a medium term rental contract at their current location, it is recommended that the operations be moved to a suitable facility of about 300 square meters. Maximum rental expense should not exceed GEL 4,300. The moving costs are estimated at between GEL 20,000 to GEL 30,000.

F. IT-Software

The most significant potential area for IT risk at the GSE/GSCD lies in the pre- and post trade process. The existing process was designed to be safe and reliable, and to build trust with market participants. However, this system could create bottlenecks if trading activity increases significantly. It may be difficult for the GSE/GSCD to improve the pre- and post trade process due to the large number of external participants involved (8 Securities Registrars and 4 Settlement Banks).

Romanian software has been installed and tested by the GSCD, but there are concerns about its compatibility with the GSCD's current rules, process and interface with the exchange system. The management of the GSE/GSCD proposed a software solution that would cost about U.S.\$6,000 to fix some of these issues. It is, however, recommended that a system audit take place within the next three months. A system audit, by a trained specialist familiar with the software requirements of an exchange and central depository should help to detect the (in) efficiencies in the system and provide a cost efficient solution.

G. Marketing

The Overseas Strategic Consulting Group (OSC) provides media and public relations support to the various capital markets institutions in Georgia through USAID funding. Since the GSE has limited funding resources, it must rely on the OSC for marketing and public relations services.

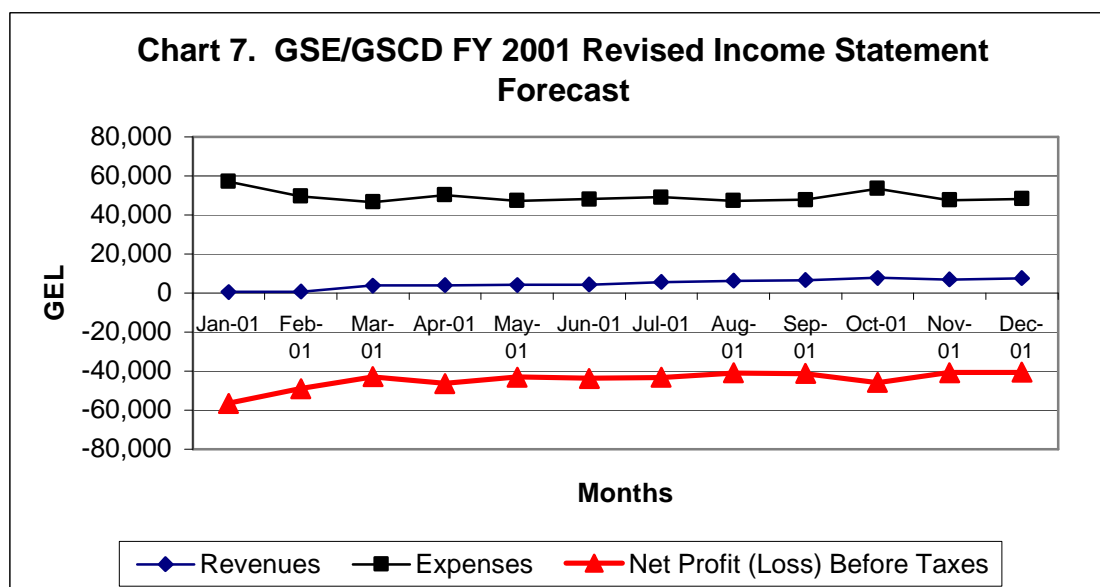
With respect to near term marketing issues,

- Provide follow-up training to market participants regarding marketing (business) development to improve their ability to attract customers. This can be done in conjunction with a program to have the broker-dealer community assist with the privatization program.

- Improve Public Awareness – Improving public awareness of the securities markets and the related protections provided to investors under the law.
- Provide additional training and educational awareness programs regarding the benefits of using the securities markets to raise capital. These programs should focus on the company directors and senior managers.
- Set as a near-term goal, securing an IPO (or, additional exchange listings).

H. Funding Requirements

Under this slimmed down version for the GSE/GSCD the funding requirements will vary. With the reduced staffing levels (only) the GSE/GSCD operations will require a total of U.S.\$295 K for 2001. With reduced staffing levels and several employees reduced to part-time, or consultancies, the funding levels drop to about U.S. \$265K. USAID should not fully fund the GSE/GSCD. It is recommended that USAID fund only 90% of their current financial requirements. In this case, for FY2001, USAID's obligation is projected at approximately U.S.\$260K. (See: Appendix B - Income Statement).



VI. Medium-Term Business Plan

The medium-term business plan is defined as actions that should be undertaken within the next 1 to 3 years. Georgian medium-term capital market and general economic conditions are such that the GSE/GSCD must focus its attention on continuously re-assessing its medium term expenditure requirements, and must be aggressive in bringing new products to the market. The following section presents steps that should be taken over the next 1 to 3 years. (See Appendix C. – Near and Medium Term Business Plan).

A. International Securities Identifying Number

In line with international guidelines, the GSE/GSCD has assigned an International Securities Identifying Number (ISIN). The GSE should, however, become a member of the Association of National Numbering Agencies (ANNA) located in Belgium. This would ensure the visibility of these numbers (stocks) to the rest of the world.

B. Management and Organization

The project team recommends that the GSE/GSCD staffing levels be maintained, if not slimmed down, at the proposed 20 full- and part-time persons as outlined in the organization chart provided below, and in the job descriptions provided in Appendix A¹⁸. The proposed staffing level includes a core staff of 15 persons (with a compliment of 3 guards, cleaning person, and, driver). It was determined that the GSE/GSCD could continue to perform its current - legally required - duties with the recommended staffing levels.

The project team also recommends that none of the recommended part-time positions be converted into full-time positions until business revenues, number of trades, and monthly turnover substantially increase. It is not expected that business revenues increase significantly over 2001. Some benchmarks that the GSE/GSCD should use to determine if/when some part-time positions can be converted from part- to full- time include:

- Review staffing levels when trades reach 500 per month.
- Review staffing levels when trades reach 1000 per month.
- Review staffing levels when trades reach 1500 per month.
- Review staffing levels when trades reach 2000 per month.

At each suggested threshold level, the GSE/GSCD should determine which staff position should be converted from a part-time to full-time basis. The project team does not anticipate more than 1 staff member position being converted from part- to full- time at each suggested threshold level. It is suggested that the management of the GSE/GSCD submit a justification for converting part- to full- time position at time of conversion.

C. Funding Requirements and Approval Process

The GSE/GSCD is currently funded by a combination of technical and financial assistance from the United States Agency for International Development (USAID) and modest fees from GSE Members. The current level of market activity is not sufficient for market participants to support the organization through payments of fees. The

¹⁸ The current level of business indicates that several positions can be made 'part-time' or contracted on a part time basis. For example, the accountant, Director of Admissions, 2 IT persons, Assistant 1 can be given consultant contracts for 20 hours per week. The Director of Operations, the Managing Director and the Supervisor of operations can be given consultant contracts for 25-30 hours per week. It is also recommended that the Chairman position be turned into a part-time consultancy (20 hours per week).

GSE/GSCD does not have the capital to support operations without support from donor agencies. The project team recommends that USAID step-down its funding support. For example, the project team recommends the following maximum level of USAID outlays for the GSE/GSCD.

Table 6. Suggested USAID Outlays To GSE/GSCD

Year	Funding Level (Percent (%) of Required)	Suggested Maximum USAID Funding Levels
FY2001 - Year 1	90%	\$260K
FY2002 - Year 2	75%	\$200K
FY2003 - Year 3 (?)	50%	\$135K

Any future funding should be linked to key market indicators and completion of mutually agreed upon milestones. Suggested USAID spending targets are illustrated in Table 6. All expenses by GSE/GSCD staff members with respect to international travel or equipment purchases in excess of U.S. \$500 should be approved by USAID.

Some milestone indicators include:

- The GSE/GSCD should be required to demonstrate the ability to collect an increasing portion of the funding from the participants as a condition for receiving any future funding.
- Additional funding should be contingent upon the completion of milestones including admission of all reporting companies for trading.
- Develop/Establish a Reserve Fund (working capital) equivalent to six (6) months operating costs of the GSE/GSCD. Once a reserve fund is developed and funded, it could be used to fund operations during periods of low market activity.

D. Fee Structure

The Exchange's proposed general strategy is to increase liquidity in the markets by reducing barriers to entry. As a result, the current monthly fee is U.S.\$10, or U.S.\$15, depending on whether a member uses a terminal at the Exchange. Members with remote access pay for incremental communication charges. The Exchange has attempted to gradually raise member fees to U.S.\$100 but has met with resistance.

The Exchange should raise fees to U.S.\$20, and U.S.\$25 if a member uses terminals on-site, by June 1, 2001. The Exchange should raise membership fees to U.S.\$50, and U.S.\$60 if a member uses terminals on-site, by June 1, 2002. Thereafter, the Exchange should review its cost structure and develop a plan to further increase fees such that membership activity can support the organization.

It is essential that the Exchange establish the discipline of collecting fees from all its members consistently. This would reinforce the expectation that members should support the Exchange through the payment of membership and transactions fees. The January and February revenues for the exchange were about GEL 600 and GEL 700, respectively. According to a recent audit report, there is approximately GEL 7,500 in accounts receivables. Obviously, the Exchange should establish tighter collection procedures and prohibit brokers who are not current on their accounts from trading. Membership privileges should be consistently suspended if fees are not paid on a timely basis.

1. Transactions Fees

Transactions fees are 0.1% of transaction value and are charged to both sides of a transaction. This type of transaction fee is not consistent with the cost structure of the Exchange and could provide incentive to participants to conduct block transactions off the Exchange¹⁹. Beginning in June 2001, the Exchange should switch from a transaction fee from percent of value, to a fee per trade amount. The establishment of a cost based fee structure would increase the incentives for the exchange to keep costs down while transferring the risks, and rewards, to the market participants.

2. Listing and Other Fees

Issuers of listed securities must pay an initial listing fee of GEL 1000 and a quarterly fee based on a percentage of total market capitalization. The fee schedule is illustrated in Table 7. There are no securities currently listed on the exchange, and the GSE does not charge fees to securities admitted for trading. In other words, the 269 firms that are currently admitted for trading on the Exchange do not pay any fees.

Table 7. GSE Fee Schedule

LISTING FEES	PAYMENT (WITHOUT VAT)
Initial Listing Fee	GEL 1000
Quarterly Fees	Of all Outstanding Securities based on Market Capitalization
	\$100K-\$200K, 0.12%
	\$200K-\$500K, 0.10%
	\$500K-\$1,000K, 0.08%
	\$1,000K-\$5,000K, 0.05%

Source: GSE. March 2001.

The GSE/GSCD is required to approve companies admitted for trading (currently 269). The approval process obligates the GSE/GSCD to: collect and maintain financial records regarding the company; update these records on a regular basis; and, make these records available when requested. The GSE/GSCD receives no revenues for maintaining these companies.

¹⁹ Ibid. P.11.

Many of these companies would prefer to be de-listed to avoid the scrutiny of the market and the necessity for regular financial reporting, so it would be difficult for Exchange to initially charge these companies a full cost recovery fee for being on the Exchange. Notwithstanding, beginning on June 1, 2001, the Exchange should implement quarterly fees of GEL 50 for admitted securities in conjunction with providing value added services (e.g., stock performance summaries, public/investor relations, etc.). Charging these admitted securities an annual fee of GEL 200 would bring in a maximum estimated GEL 53,800 per annum. The Exchange would require additional technical assistance in defining and providing a product that would allow them to charge even a minimal fee to firms that have heretofore never paid to be part of the exchange.

Table 8. GSCD Fee Schedule

TYPE	AMOUNT	FREQUENCY
Membership Fee	5 GEL	Monthly
Clearance and Settlement Fees	0.07% of Transactions Cost	Immediate
Transfer to Safekeeping Account	0.03% of Transactions Cost	Prior to Transaction
Issuing Account Statements	0.5 GEL	Prior to Issuance
Register Securities in the Name of the Account Holder	Na	Prior to Transaction
Penalty for Overdue Payments	0.1% of the Unpaid Amount for Each Day Overdue	

Table 8, above, illustrates the fee structure for the GSCD. The lack of market activity has inhibited the growth in GSCD membership. A brief observation, the fees (not) collected since the formation of the GSCD indicate that a significant number of current members are not paying the monthly membership fees. It is essential that all fees be collected fairly and regularly. If members do not pay fees, their membership privileges should be suspended.

E. Record Retention

The Law on the Securities Markets defines the record retention obligations for the Exchange. In brief, in addition to keeping electronic and physical records with activities conducted on the trading system, the Exchange must maintain records associated with the admission of securities, members and brokers. The Exchange also receives periodic records and reports submitted by issuers and brokerage companies to the NSC. At the present time, this workload does not appear sufficient to justify a full-time position. It may be feasible to contract out for these services for 15-20 hours per week.

As the number of market participants and market activity increases, and only until the level of market activity increases, the firm may want to consider in 1 or 2 years hiring a full-time person to adequately maintain, protect and process this documentation. Only when the Exchange has sufficient own-source revenue, or to charge the traded firms for full-cost recovery in retaining these records, should they consider establishing this as a full-time position.

F. Distribution / Communication

The Exchange is located in Tbilisi where virtually all Georgian business and trading activity are concentrated. Although some marketing has been done to different regions of the country, many prospective investors do not have either a knowledge or access to the equities market. Remote access to the system could expand the market for securities admitted for trading and assist in improving market liquidity. Remote access to the exchange should not be part of a near term strategy. Remote access should be part of the Exchange's 2-3 year strategy and should be carefully scrutinized in relation to additional installation and operational costs.

G. Marketing

The Exchange has engaged in the practice of generating very enthusiastic forecasts for the future potential of the domestic capital markets, and concomitant GSE revenues. The GSE should develop more realistic forecasts. With respect to medium term marketing issues,

- Continue to provide follow-up training to market participants regarding marketing (business) development to improve their ability to attract customers. This can be done in conjunction with a program to have the broker-dealer community assist with the privatization program.
- Continue to improve public awareness – Improving public awareness of the securities markets and the related protections provided to investors under the law.
- Continue to provide additional training and educational awareness programs regarding the benefits of using the securities markets to raise capital. These programs should focus on the company directors and senior managers.
- Set as a near/medium-term goal, securing an IPO (or, additional exchange listings).

Market Potential:

- **Listing of Securities** – The GSE should focus on obtaining one (1) listing for FY2001 and one (1) or two (2) listings for FY2002.
- **IPOs** – There are several privately held Georgian companies that may generate some interest from potential investors and may also be candidates for an Exchange listing. The GSE should, with the assistance, of Sibley International, Inc. work to bring one IPO into the Exchange in FY2002. The first IPO will take the most time. GSE should work with Sibley International, Inc. to develop a realistic pipeline of potential IPOs.

- **Privatization** – The Georgian government has demonstrated a preference for cash sales to strategic investors bypassing the local Exchange. The GSE should set as its target one (1) privatization for FY 2001 and two (2) privatizations for FY2002. The GSE should intensively promote the idea to the Georgian government that the survival of the GSE may depend on privatizations being brought through the Exchange.
- **Municipal Bonds** – Debt securities offer more stable and less risky returns for institutional investors and can be more attractive than equity investments. Notwithstanding, municipal debt securities are typically held to maturity and there is less trading activity on the secondary market. Although there is substantial interest in municipal borrowing, this appears to be a minimum of 1-2 years in the future. The members of the GSE should participate in the discussion of developing a legal and regulatory framework for municipal borrowings.
- **Corporate Bonds** – The Georgian financial community will need at least one blue-chip company to issue the first debt security to attract investor interest. Further, this may require some changes/additions to local securities legislation. Any corporate bond issue may be several years down the road.
- **T-Bills** - The Exchange will face substantial opposition from the National Bank of Georgia in getting treasuries traded on the secondary market. In addition, if the tenure of the newly issued Treasury bill is very short (180 days or less), it is unlikely that there will be much secondary market trading. The Exchange will only benefit from secondary market trading in T-Notes or T-Bonds if the maturities of these notes are greater than 2-years (medium and long-term notes).
- **Investment Funds** - The addition of tightly regulated institutional participants (mutual funds, insurance companies) to the Georgian capital markets would be beneficial to the development of the market. Investment funds would create additional investor trading opportunities, and, allow for increased scrutiny of corporate management. Investment funds would exert pressure on management to improve shareholder value. In order to establish investment funds, the legal and regulatory framework must be reviewed.

H. Education

The National Securities Commission (NSC) has completed a series of appearances (workshops) to inform the public of its role in the capital markets. The NSC went so far as to even check the registry positions for those citizens that were uncertain about their ownership positions. Convincing the public that the NSC is an unbiased regulatory agency protecting shareholder rights is of primary importance to increasing shareholder confidence²⁰. The NSC should continue making these marketing appearances (Georgian

²⁰ The NSC should continuously find the opportunity to explain, to the Georgian consumer, its role as an independent regulator. Further, the NSC should also continue to supply information to the Georgian

Capital Markets Road Show) in conjunction with the GSE and the brokerage community. The GSE should:

- Continue to improve the awareness and understanding of potential issuers regarding the benefits associated with using the Exchange to provide access to capital and the importance of complying with disclosure and corporate governance requirements.
- Continue to explain its role in the marketplace as an impartial provider of a facility/mechanism where traded shares can be bought and sold. It is important for the GSE to explain/clarify its role as a self-regulatory organization (SRO).
- Develop relationships with regional exchanges and international securities market organizations to increase the exposure of the Exchange to the international business community.
- Assist the brokerage community in explaining its role in the capital markets. Commissions and maintenance fee charges should be detailed to the investing public. More importantly, the brokerage firms must explain what a 'limit order' is to the public²¹.

VII. Recommended Changes to the Clearing and Settlement Model And Integrating Systems for Processing Securities

Good capital markets infrastructure relies as much on efficient systems for processing cash and securities as it does on systems for trading and market data. As the GSE moves forward, the capital markets institutions should not neglect some recommended changes in trade processing infrastructure.

Fortunately, it should not be difficult to correct some of these issues. Together with certain measures for integration and rationalization of various securities processing systems, and the implementation of institutional controls, Georgia can have a market infrastructure worthy of its new trading system. There are several areas for improving these systems in the Georgian capital markets:

1. Make the CSD the back-office systems provider for the capital markets.
2. Combine registry and central depository
3. Establish settlement guarantees

shareholding public on grievance procedures. Any and all actions taken by the NSC should be highly publicized.

²¹ An undereducated investment community may feel that contract prices are the result of collusion among brokers, and that the investor will always pay more or receive less than they should. By explaining that an investor can guarantee that (s) he will pay no more than a price selected by the investor on a buy, or receive no less than a price selected by the investor on a sale, it should alleviate many investor concerns. It should also be explained to investors that limit orders at prices that cannot be matched by a counter party would not be executed. In addition, broker representatives should also explain the obligations that they and their clients must meet, and how their services can be used.

4. Managing settlement risk.
5. Increasing investor confidence

1. Make the CSD the Back Office Systems Provider for the Capital Markets²²

Securities processing involves “back-office” functions, and regulatory responsibilities for “carrying”, “safekeeping” or “keeping and holding” customer accounts. Unlike Western CSD’s, the CSD has this functionality built into its basic design. The CSD should expand its role and assume full regulatory responsibility for intermediary back-office functions. This rationalizes back-office data processing systems, lowers transaction costs, and increases regulatory control.

The responsibility for “carrying customer accounts” lies at the very core of regulations for customer protection. It involves safekeeping and custody of customer cash and securities, and various services for maintaining accounts. These services can include accounting for securities and cash activity, issuing customer account reports (transaction confirmations and periodic statements), performing corporate actions (dividends, splits, mergers, exchanges), and distributing issuer disclosure (financial reports and proxies). Further, although there is no evidence of brokers using their customers stock or cash, holding customer assets at the CSD will significantly reduce the possibility of this type of activity.

The CSD is ideally suited to these roles, whereas the current practice of entrusting every licensed broker-dealer is questionable. This role implies two changes to the functional responsibilities of the CSD. First, it would provide the back-office systems for its members (on-line access to account information, status, activity history, and standardized reporting). Second, the CSD assumes all customer-reporting responsibilities (trade confirmations, account statements, etc.) A CSD is like a central bank for securities—entrusting the CSD with the regulatory responsibility for carrying customer accounts would certainly raise public confidence in the integrity of the Georgian capital markets.

2. Combine Registry and Central Depository

All securities in the Georgian securities market are dematerialized (no physical certificates). Registration takes places in three forms: direct registration, ‘street’ registration (brokerage), and ‘street’ registration (nominee). Direct registration indicates that securities are registered in the name of the investor. Street registration and its two variants imply that the security can be listed in the name of the brokerage, or in the nominee of the CSD.

In Georgia, each trade causes a re-registration of shares. For example, an investor purchasing a security may request direct registration, and a broker’s proprietary trade

²² The GSCD intends to offer shares to its members to increase the capital of the organization. This would require changes in the Georgian legislation to allow founders/owners of a stock exchange to be founders/owners of a central depository.

would require re-registration to the broker's name. Before a sale can be executed, the securities must be registered in the CSD nominee name. As a requirement of the security pre-deposit rules, it is likely that the security will have to be re-registered from customer, or broker name, to CSD nominee name. The marketplace would significantly benefit if only one registration was permitted – the CSD nominee. The costs associated with re-registrations are significant. A reduction in registration expenses would be passed forward to the investor. Hence, investor transactions cost would be significantly lower.

According to the GSE/GSCD, the registries are the only market participants currently showing strength on their income statements. In fact, some registry owners are opening their own brokerages. Eliminating the re-registering activities will not only reduce security transaction costs, but may benefit trading in certain securities. Currently, if a company disburses a dividend, registered owners are notified of the dividend distribution and must go to the corporate head offices to collect. As additional investors participate in the marketplace, this dividend disbursement and collection method will prove too cumbersome to administer. If the CSD nominee is the only registered holder, it will be required to collect and distribute the dividend to the brokerage firms (and, their customers). The improved efficiency gained by combining all registrars in the CSD would be obtained by the reduction of many registrar jobs. Several new laws would have to be repealed, or altered, to combine the registrars into the GSCD. Additionally, as the market grows, serious consideration should be given to creating an independent depository, separate from the GSE. Legally, other exchanges or an over-the-counter (OTC) market can open, and a depository controlled by one exchange may inhibit this future growth.

3. Establish Settlement Guarantees

At the present time, the officers of the GSE/GSCD (a.k.a. 'the Marketplace) claim that there is little, or no counter party risk to brokers because both the purchasing firm's funds and the selling firm's securities must be locked in before a trade is executed. The officers of the GSE/GSCD claim that this is a temporary measure in order to mitigate risk while the market develops. It is vital to the integrity of a securities exchange that customer trades, once executed, will settle according to agreement. But given the inherent risk of settlement (failure to deliver securities, or make payment), there is no systemic guarantee. To address the problem, depositories themselves become guarantors.

If the market develops as envisioned, the pre-deposit of securities and funds may become more difficult. The internationally accepted solution to this problem is to establish a settlement guarantee fund. The underlying premise of a settlement guarantee fund is to protect each broker (and, broker's customer) from the insolvencies of members of the brokerage community. Exchanges can do this in various ways: establish funds with retained earnings or, member contributions, require trading deposits or margin, use outside insurers. Under current regulations, the GSE settlement system is risk free ("cash basis") since both cash and securities are required prior to entry. Add a means for verifying and locking-in the cash and securities positions, and settlement risk would be zero. This could be accomplished by integrating GSE, CSD, and the CSD Clearing Bank.

However, this is not the optimal solution. The CSD should follow global standards for cash payment by settlement date (SD). But this means some settlement risk. Guaranteeing against settlement risk means more than just establishing a “guarantee fund”. There must be a system of effective risk management controls. The text below suggests one low cost alternative that would combine risk controls with a margin deposit fund that would allow the Georgian capital markets to provide a credible settlement guarantee, and lower the cost of any additional back-up insurance.

4. Managing Settlement Risk

Sample risk management system:

Broker-Dealer (BD) Credit Risk - The frontline for risk management is at the broker-dealer level. Brokers must accept all responsibility for the orders they place on the GSE—they ultimately “own” every trade they make. The firm must know its customers. Financial and trading managers should have internal controls and procedures for handling settlement risk. Firms must review clearing statements daily for debit exposure and analyze with respect to price volatility and liquidity in the market, and the affect on the risk for the individual trades, customer concentration, security concentration, and total market exposure.

5. There is no substitute for internal risk management

The CSD will be required to collect and maintain the fund, requiring the following:

- **Customer Collateral:** The broker dealer can secure customer debits against cash and government securities positions in the account. On a case-by-case basis, letters of credit can be used to satisfy requirements. The amount of deposit required from each brokerage firm typically depends upon the volume of trades that each firm executes. A firm doing 1000 trades per day is a substantially larger potential liability than a firm executing 100 trades per day.
- **Net Capital:** One of the main purposes of net capital requirements is to back each trade in case of a failure. Failed trades can be rebooked to the firm’s suspense account (for later settlement) or the error account (for sell-out). The firm now “owns” the trade.
- **Regulatory Risk Monitoring:** The CSD, in cooperation with the GSE, should devise a risk management system based on market trading patterns, and firm characteristics. Risk managers should have timely access to regulatory net capital reports. The CSD should use these, along with internal clearing reports, to monitor the settlement system. The risk limits management system should take into account market liquidity, price volatility, net capital, and size of trades, customer concentration, security concentration, and the total market.

- Deposit requirements should be computed twice a month. As a firm's trading volume increases, or if its trading patterns show a trend towards more volatile or illiquid securities, additional funds will be required. Conversely, lower volumes or trading patterns to more stable securities would allow a partial return of a deposit.

In order to reduce counter party risk, the depository, using the process of 'novation' legally assumes counter party risk. In brief, the CSD becomes the counter party for settlement (not trading) for every member firm. Should one of the two counter parties to a trade become insolvent before settlement, the CSD, via the Guarantee Fund Deposit, will settle the trade with the solvent counter party. If funds are needed, the insolvent firm's contribution should be used first.

The guarantee fund will be necessary in the long-term whether the GSE continues to settle on a trade-for-trade basis as is the current practice, or if increasing volumes require a multi-lateral netting process. International investors will expect some form of settlement guarantee before they will trade in the local public securities market.

VIII. Increasing Consumer Confidence

Consumer confidence in local domestic banks remains weak. If consumers have limited trust in the stability of local domestic banking institutions, there is virtually no trust in the local capital market (and brokerage system). It may be prudent for the international donor community to investigate the possibility of establishing a program similar to the Securities Investors Protection Corporation (SIPC). Under the SIPC, the brokerage community contributes to, and an independent agency administers, a fund that will insure a minimum value of assets in client brokerage accounts.

Appendix A – Position Descriptions For the Proposed GSE/GSCD

Chairman of the Board – GSE/GSCD

- Chairman of the Board
- Organizes and participates in GSE/GSCD strategy.
- Supervises and controls Directors.
- Acts as an official representative of the GSE/GSCD.

Administrative Assistant/Office Manager (1 Person)

- Correspondence
- Telephone calls
- Office supplies
- Reception
- General office duties
- Assists in Managing daily activities of administrative employees.
- Manages non-technical service agreements with outside vendors.
- Provides translation services on an as needed basis.

Director of Admissions

- Reports to the Chairman/CEO
- Controls the broker's admission process.
- Controls new stocks admittance for trading.
- Executes/engages in broker/exchange relationship.
- Controls the adequacy of the broker's authorization records.
- Heads / engages in market surveillance.
- Participates in required meetings with supervisory board etc.,
- Head of GSE appeals commission.
- Arbiter of the exchange permanent arbitration.
- Responsible for amendments for the exchange documentation.
- Assists in organizing training.
- Preparing new admissions for trading.

Assistant 1

- Reports to Director of Admissions
- Report trading data to the media (Executes quotes).
- Assists in organizing training.
- Can perform all other functions as required by Director of Admissions.

Director of IT (Shared Services)

- Reports to the Chairman/CEO

- Provides Software/network support for all processes and procedures at the GSE/GSCD
- Updates and introduces schemes for reliable functioning of trading system and databases.
- Manages and controls the information flows and information availability and safety.
- Establishes new securities admissions in the GSCD (after admitted by Director of Admissions).
- Establishes crude interest formula software for fixed income securities.

IT Specialist 1

- Provides Software support for all processes and procedures at the GSE/GSCD
- Prepares and manages exchange trading/monitoring of exchange requirements.
- Responsible for development of statistics program, archives of trade results, exchange web site, and maintenance of links with market data vendors.
- Assists in conduction seminars on trading system practices.
- Registers brokerage firms and traders into systems.
- Provides cross-support IT services to GSCD systems.

IT Specialist 2

- Provides Software support for all processes and procedures at the GSE/GSCD
- Establishes new securities admissions in the GSCD.
- Establishes crude interest formula software for fixed income securities.
- Administers Exchange/Depository Network, security, user registration etc.
- Administers web-systems, FTP servers and other servers.
- Administers GSE/GSCD depository system.
- All other.

IT Specialist 3

- Network support for all processes and procedures at the GSE/GSCD
- Establishes new securities admissions in the GSCD.
- Establishes crude interest formula software for fixed income securities.
- Administers Exchange/Depository Network, security, user registration etc.
- Administers web-systems, FTP servers and other servers.
- Administers GSE/GSCD depository system.
- All other.

Director of Operations (Chairman of GSCD/Chief Operating Officer)

- Reports to the Chairman/CEO
- Deals with broker compliance/settlement relations.
- CSD public relations representative
- Responsible/Oversee for daily activity of CSD Operations.
- Informs broker's of their obligations as a member of the settlement system.

Supervisor of Operations

- Checks accuracy of reports.
- Engages in record retention.
- Resolves broker issues/problems.
- Responsible for dividend /corporate actions.

Settlement Specialist

- Ensures pre-deposit of securities and funds.
- Move applicable securities and funds based on trade settlements.
- Ensure necessary bank transfers are completed.
- Accepts IPO deposits and ensures distributions that IPOs are made correctly.

Accountant

- Manage and control bank accounts.
- Payroll
- Taxes
- All internal/external financial/cost accounting procedures.
- Produces financial reports for the GSE/GSCD General Director.
- Executes all accounting activities of the GSE/GSCD.

Lawyer

- Interpret security commission regulations as they pertain to admissions, trading and settlement.
- Inspecting (Audit) GSE members for compliance.
- Advises and protects the interest of the GSE/GSCD (in court).

Translator / Marketing

- Translates capital market financial data.
- Provides verbal translator.
- Investor Relations
- Marketing of GSE/GSCD

Appendix B – GSE/GSCD FY2001 Revised Income Statement Projection

Income Statement (GEL)	Total 2001	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01
<u>Revenues</u>													
Operating Revenues	58,245	601	704	3,753	3,923	4,093	4,309	5,679	6,349	6,519	7,769	6,939	7,609
Total Revenues	58,245	601	704	3,753	3,923	4,093	4,309	5,679	6,349	6,519	7,769	6,939	7,609
<u>Operating Expenses</u>													
Salary and wages	324,800	27,800	27,800	27,800	27,800	27,800	27,800	27,800	27,800	27,800	27,800	27,800	27,800
Social Costs	103,416	8,618	8,618	8,618	8,618	8,618	8,618	8,618	8,618	8,618	8,618	8,618	8,618
Other Tax Expenses	3,407	63	158	587	78	82	598	114	127	642	155	139	664
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent & Utilities	77,072	9,718	7,572	1,321	6,393	6,373	6,393	6,373	6,393	6,373	6,593	6,773	6,797
Office Supplies	7,639	2,344	0	0	1,765	0	0	1,765	0	0	1,765	0	0
Communications	27,493	1,875	1,923	2,365	2,366	2,367	2,368	2,369	2,370	2,371	2,372	2,373	2,374
Advertising & Promotion	7,746	2,173	1,573	4,000	0	0	0	0	0	0	0	0	0
Repair & Maintenance	2,000	2,000	0	0	0	0	0	0	0	0	0	0	0
Security	2,800	150	150	150	1,150	150	150	150	150	150	150	150	150
Transportation	9,600	800	800	800	800	800	800	800	800	800	800	800	800
Consulting fees	12,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Other	5,411	500	11	0	300	0	300	0	0	0	4,300	0	0
Total Operating Expenses	583,384	57,041	49,605	46,641	50,270	47,190	48,027	48,989	47,258	47,754	53,553	47,653	48,203
Net Profit/(Loss) Before Taxes	-525,140	-56,440	-48,901	-42,888	-46,348	-43,097	-43,718	-43,310	-40,909	-41,235	-45,785	-40,714	-40,594
Loss Carry Forward	-525,140												
Net Profit Subject to Taxes	0												
<u>Income Taxes</u>													
Profit Tax	0												
Total Income Taxes	0												
Net Profit/(Loss)	-525,140												
<u>External Funding Requirements</u>													
Exchange Rate (GEL/USD)	2												
Funding Requirements (GEL)	525,140												
Funding Requirements (USD)	262,570												

Appendix C – GSE/ GSCD Proposed Workplan



ID	Task Name	2001				2002				2003				2004				2005	
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2
22	Participate/Develop Training Programs																		
23	Involvement in Regional Training Seminars		◆ 5/24																
24	Involvement in Regional Training Seminars			◆ 9/19															
25	Involvement in Regional Training Service				◆ 11/21														
26	Involvement in Regional Training Seminar					◆ 2/12													
27	Involvement in Regional Training Seminar						◆ 5/22												
28	Listing Policy																		
29	Prioritize Potential Companies For Listing																		
30	Meetings with Potential Listing Candidates																		
31	First Company in Listing		◆ 6/15																
32	Second Company in Listing				◆ 10/17														
33	Admission of all reporting companies for Trading on the Ex				◆ 12/30														
34	Conduct IPO's																		
35	Complete GSE Rules For IPOs																		
36	Deliver Rules		◆ 5/25																
37	Identify and Prioritize Potential Candidates																		
38	Deliver 'Top-10' List			◆ 7/27															
39	Deliver Consultations To IPOs (Ongoing)																		
40	Launch First IPO			◆ 9/19															
41	Launch Second IPO				◆ 10/24														
42	New Instruments																		
43	T-Bills (?)																		
44	Corporate Bonds																		
45	Long-term Prospects																		
46	Mutual Funds Investment Companies (?)																		
47	CSD Obtains Independence From GSE (?)																		

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